

Third Quarter Taxable Sales Up 2.4%

Taxable sales rose 2.4 percent during the third quarter of 2003 to \$8.39 billion (for current period sales). Sales were expected to increase 4 percent (Table 1). For the first time in many quarters, only one of the three major sectors in the third quarter declined relative to the same quarter in 2002. The third quarter gain follows seven quarters of sluggish sales changing between -4 percent and +1.5 percent since 9/11.

Nineteen of the 30 sectors reported positive growth in the third quarter of 2003, compared to only 11 in the second quarter. **Retail Trade** sales, the largest major sector with nearly 54 percent of taxable sales, reported a fairly strong 3.9 percent increase, close to our 4.7 percent forecast last November 2002 (Table 1), but still below U.S. retail trade growth of 6.1 percent in the third quarter of 2003. Strong sales growth was reported in Retail-Building and Garden stores, General Merchandise, Eating and Drinking and Miscellaneous Shopping Goods stores in the third quarter of 2003.

Only four of the nine **Business Investment** sectors saw declining purchases and sales in the third quarter of 2003 leaving it nearly 1 percent above purchases in the third quarter of 2002. This compares to seven out of nine declining sectors between the fourth quarter of 2002 and the second quarter of 2003. Communications rebounded from a 5 percent decline in the third quarter of 2002 to a 12 percent gain in the third quarter of 2003. Transportation sector purchases bounced back 6 percent following a 37 percent tanking in 2002's third quarter. Modest gains were reported

by Manufacturers and Electric and Gas companies. In contrast, Wholesale-Durable Goods final sales fell 2 percent and Nondurable Goods sales dropped 9 percent.

TABLE 1.	UTAH FORE- CAST* 2003q3	UTAH 2003q3	U.S. ACTUAL 2003q3
RETAIL TRADE	4.7	3.9	6.1
BUSINESS INVEST.	2.2	1.1	4.2
SERVICES	4.5	-2.3	4.7
TOTAL	4.0	2.4	n/a

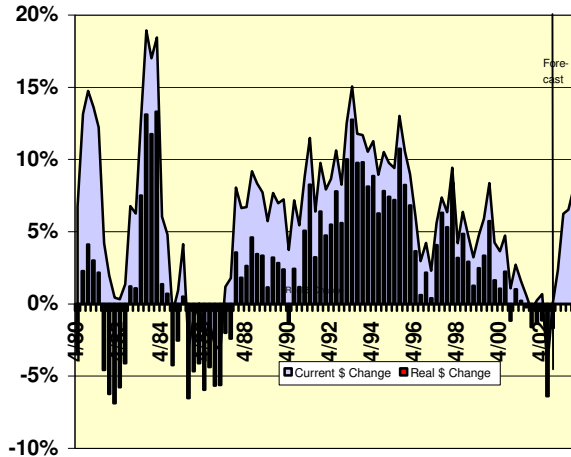
• *Forecast made in November 2002*
U.S. sources: *Survey of Current Business*, BEA,
Dept. of Commerce, July 2003, and for Retail
Trade: www.census.gov/mrts/www/current.htm

Five out of eight of the **Service** sector's sales were in decline during the third quarter of 2003. Business Services, which typically follow the lead of **Business Investment**, saw their sales fall off 4 percent. The largest sector, Auto Rentals and Repair, reported sales slightly below those in 2002. Hotel sales were up 1 percent. The Finance and Real Estate sector saw its sales and automobile and other leases drop 21 percent in the third quarter.

After accounting for consumer inflation of 1.9 percent, **real taxable sales and purchases** (including prior-period payments, adjustments and refunds) **rose 0.4 percent in the third quarter of 2003. This was the first positive real gain since the fourth quarter of 2001.** Since the second quarter of 2001, the same quarter that the U.S. recession commenced, taxable sales in Utah have

worsened (Figure 1).

Figure 1. Percent Change in Utah Taxable Sales

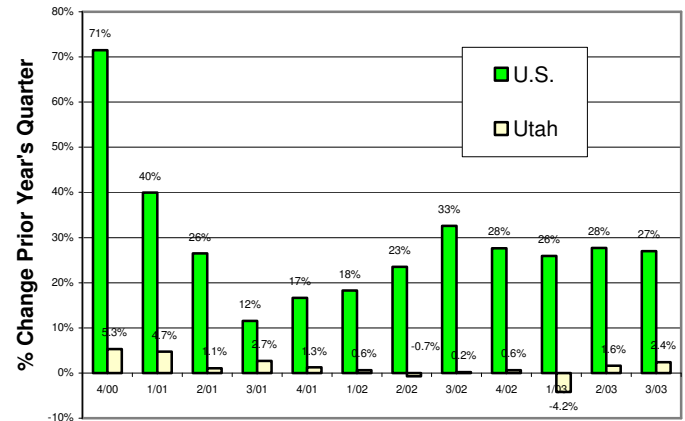


In summary, it appears that Utah's consumers increased personal consumption during the third quarter, but not as much the rest of the nation. It also appears that Utah's business sector continues to forego investment compared to the nation as a whole, but the declines are leveling out.

E-Commerce Retail Sales Jump Again

According to the U.S. Department of Commerce, U. S. retail E-commerce rose 27 percent to \$13.3 billion in the third quarter. Assuming Utah equals 0.62% of that amount, Utah E-commerce retail sales would be \$82.7 million for the quarter (and if taxable would amount to \$3.9 million in foregone revenue at the state's 4.75% rate). Figure 2 compares the recent growth rates in Utah taxable sales with the U.S. growth rates in E-commerce over the past ten quarters.

Figure 2. U.S. Retail E-commerce Sales Growth vs. Utah Taxable Sales Growth



Regional Growth

Third-quarter taxable sales growth along the Wasatch Front (including the Mountainlands Region, Table 4) rose 2.2 percent, ranging from -8 percent decline in Morgan County to +7 percent growth in Summit County compared to the same period in 2003:

- 1) Salt Lake County – up 2 percent,
- 2) Utah County – up 1.6 percent,
- 3) Davis County – up 2.2 percent,
- 4) Weber County – up 3 percent.

Eighteen of the 29 counties reported taxable sales gains in the third quarter. This compares favorably with the 12 counties with sales gains in the first quarter of 2003.

At first glance, direct sales for Utah's 55 major cities rose 10.2 percent, much higher than the state growth of 2.4 percent. But after adjustments are made to account for the increase in direct sales base, a "comparable" percentage change for the 55 cities is was 4.1 percent (Table 5), still higher than the overall statewide growth rate.

The adjustment is necessary to account for a Tax Commission shift of public utility sales from indirect sales (by county) to a more direct sales basis (by city). This change will be occurring over the next four to six quarters and should be carefully watched by analysts. In addition, it is important to note that this adjustment increased from 3 percent of taxable sales in the second quarter of 2003 to 5.5 percent in the third quarter, suggesting that more utilities are switching over.

A good example is Salt Lake City, where “Revised and Final” direct sales rose 8.8 percent; but \$97 million of the increase in direct sales occurred in the Communication and Electric and Gas Sectors, where the Tax Commission tried to move utility accounts from indirect county basis to direct city basis commencing in the third quarter of 2003. So backing out the \$97 million, we find that “Comparable” sales (which provides a more accurate reflection of city sales growth) were actually down by 1.5 percent.

Nondurable Retail Sales Increase 4 Percent in Third Quarter

Led by General Merchandise and Miscellaneous Shopping Goods stores, **Retail Nondurable-Good** sales of \$3 billion rose 4.3 percent during the third quarter of 2003.

Retail Nondurable sales, which comprised 36 percent of total taxable sales in the third quarter of 2003, generally include goods that last less than three years within the following sectors: Food stores, General Merchandise stores, Apparel and Accessory stores, Eating and Drinking places and Miscellaneous (shopping goods) stores. For the past four calendar years sales growth rates have ranged from 4.7 to 5.7 percent. So the 4.3 percent growth in the third quarter of 2003 was

somewhat weak, but improving.

As per economic theory the 4.3 percent nondurable retail sales growth was slightly larger than nonfarm wage growth of 2.5 percent in the third quarter (Table 3). This suggests that consumers borrowed the difference or spent out of their savings in the third quarter.

Table 3. Taxable Sales Economic Drivers	Third Quarter 2003 Growth Over Prior Year
Utah non-farm wages, preliminary	2.5 %
Utah Consumer Sentiment Index	N/a
Inflation - U.S. Personal Consumption Deflator	1.9 %
Utah Residential Construction Value	31.5 %
U.S. Investment in Equipment & Software	5.6 %
Utah New Car and Truck sales	-4.0 %
SLC Airport Total Passengers	1.3%

Sources: Utah Department of Workforce Services; Bureau of Economic Analysis, Valley Research; U.S. Department of Commerce; University of Utah, Bureau of Economic and Business Research; Economy.com; Salt Lake City Intl. Airport.

General Merchandise store sales led the pack again in the third quarter of 2003 with an 8.4 percent gain. This gain was on the heels of a much stronger 17 percent increase in the third quarter of 2002. And its growth rate was nearly matched by Miscellaneous Shopping

Goods stores. Relative to the 1.9 percent increase in prices, General Merchandise store's sales growth of 8.4 percent was relatively quite strong. Large "Big-box" discount stores appear to be continuing to increase market shares from traditional Department and Food stores, but at a slower pace. The number of General Merchandise outlets increased from 501 to 546 from the third quarter of 2002 to the third quarter of 2003. So, 45 new General Merchandise outlets exist. At the same time the number of Grocery store outlets fell from 519 to 507, a drop of 12.

Department Store sales of \$888 billion rose 8.7 percent in the third quarter of 2003. The two-year gain over the third quarter of 2001 was more than 27 percent. Variety store sales rose 3 percent following a 47 percent gain in the third quarter of 2002.

Retail-Apparel and Accessory store sales, which often follow the path of General Merchandise store sales, rose at a 5.3 percent pace, slightly lower than General Merchandise stores. Family Clothing stores, the largest group, saw its sales rise 4.3 percent to \$126 million. Women's Clothing stores sales rose 11 percent and Women's Accessories stores sales rose 28 percent.

Usually growing faster than the other **Nondurable Retail Goods** sectors, Retail Miscellaneous Shopping Goods store sales rose 7.5 percent. Strong sales occurred in the following subsectors:

- 1) Drug stores (up 35%)
- 2) Book stores (up 10%)
- 3) Stationary stores (up 27%)
- 4) Camera & Photographic stores (up 42%).

Liquor store sales rose 6.6 percent. Nonstore Retailer sales increased 2.9 percent. Sales in

the largest subsector, Sporting and Bicycle stores rose almost 6 percent to \$77 million in the third quarter.

"Big Box" Department stores probably cut into Food Store sales again, for the eleventh consecutive quarter. During the third quarter of 2003 Food store sales fell 3.3 percent to \$761 million. Grocery stores, formerly the largest retail group, reported a decrease of 3.7 percent in third quarter sales to \$610 million. Newspaper stories indicate that "Big-Box" Department stores are selling more and more groceries.¹

'Other Food store' sales, including bakery, ice cream, pizzerias, etc. were flat in the third quarter. Convenience store sales of \$140 million (excluding nontaxable gasoline) fell 2.3 percent in the third quarter of 2003.

Utah restaurant sales increased 5.8 percent in the third quarter of 2003. This level of growth is below its long-term trend of 7 percent, but part of that long-term growth occurred in times of higher inflation. Fast-Food Eating places, the largest subsector, with \$210 million in sales, made a 5.9 percent gain. The second largest subsector, Family Restaurants, experienced a 3.5 percent drop to \$173 million in the third quarter. In contrast, Theme Restaurant sales were up 26 percent and White Table Cloth restaurant sales jumped 40 percent in the third quarter of 2003. All Other Eating Place sales were flat in the third quarter.

Retail Durable Sales Up 3 Percent

Third quarter 2003 retail sales of **Durable Goods** (items expected to last more than three years) rose 3.3 percent to \$1.83 billion. Building and Garden stores led the way

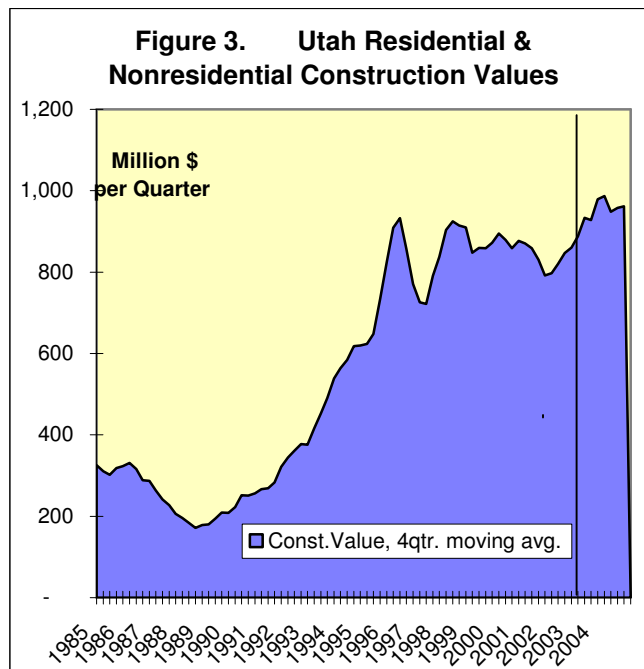
1 "Wal-Mart Bulks Up on Private Labels," New York Times, July 5, 2003, Section 3, p. 1.

reporting an 11 percent sales gain.

Possibly due to the Iraq war or the timing of when new home starts will be completed, Furniture and Home Furnishing stores were flat in the third quarter. However, Retail Furniture, the largest subsector, saw its sales improve 1.5 percent following a 7 percent drop in third quarter of 2002. **Again, a new chain in the Radio, TV and Electronic sector appeared to be a hit, where sales jumped 52 percent in the third quarter of 2003.** Possibly due to that competition most of the remaining subsectors saw mostly declining sales:

- 1) Record & Tapes (-12%),
- 2) Household Appliances (-57%)
- 3) Computer & Software (-8%).

The near 26 percent gain in Paint, Glass and Wallpaper stores during the third quarter along with an 11 percent gain at Lumber stores combined for an 11.4 percent gain in the, Building and Garden sector. Hardware stores were strong, rising 8.6 percent. The 31.5 percent jump in residential permit values (Table 3) drove much of the gain here.



Fewer “Zero Rate” loans or other incentives in addition saturation in the automobile market led to the 1 percent drop in Motor Vehicle Dealer sales. New car dealer sales reached \$698 million for a decrease of 1.2 percent. Unit sales fell 4 percent in the third quarter, suggesting consumers were still buying bigger, more expensive units with more gadgets (SUVs and Hummers). It is important to note that third quarter of 2002’s \$706 million sales level was a record high, at least since 1995. Used Car Dealer sales fell 4 percent during the third quarter of 2003. Auto and Home Supply store sales rose 4 percent while Gasoline Service station (non-gas) sales rose almost 12 percent (40 new service stations appeared, possibly a SIC change from declining convenience stores).

For the fourth quarter in a row, Recreational Trailer (up 31%) and Motorcycle Dealers (up 23%) did very well. In contrast, Boat Dealer sales, fell 9 percent in the third quarter of 2003.

Business Investment Purchases Up 1% in 3rd Quarter

Business Investment and Utility sales and purchases managed to increase 1.1 percent in the third quarter 2003. The \$2.02 billion in business investment purchases and utility sales were still well below 2002 levels of \$2.1 billion. Prior to the third quarter of 2003 this sector recorded six declines out of seven quarters following the third quarter of 2001 (9/11). The threat and actuality of war, overcapacity and stock market declines still appeared to create a mix of negative signals for the business owners. Creighton University's Purchasing Manager's Index for Utah recorded a 53 for new orders in the first half of 2003, compared to a reading of 71 in the second half of 2003.² This bodes well for future, near-term investment in Utah.

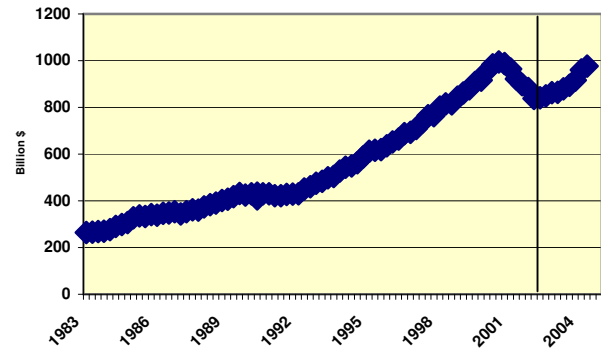
In the U.S., business equipment and software purchases firmed up and increased 5.6 percent in the third quarter (Figure 4). In Utah, nonresidential construction permit values rose 20 percent (Figure 3 and residential permit values rose 32 percent during the third quarter of 2003.

Five out of the nine sectors within Business Investment sales and purchases saw gains in the third quarter of 2003, and four sectors experienced more decline. Mining purchases fell 9 percent for the third quarter in a row, in part due to a 56 percent drop in Coal mining purchases during the third quarter of 2003. Oil and gas leasing and purchases fell 8 percent to \$16 million. Nonmetallic minerals except fuels' purchases were off 8 percent. Metal mining purchases jumped 474 percent to \$7 million from \$1.2 million.

In the Construction sector, the 4.6 percent gain by Heavy Construction contractor purchases

were more than offset by declines in other areas. General Building Contractor purchases fell nearly 23 percent and Special Trade Contractors, the largest subsector, saw their purchases drop nearly 5 percent to \$53 million.

Figure 4. U.S. NONRESIDENTIAL FIXED INVESTMENT-PRODUCERS DURABLE EQUIPMENT & SOFTWARE (Global Insight)



Wholesale Durable Goods sales fell back again 1.7 percent in the third quarter of 2003. Six out of the nine subsectors reported less final sales. Three sectors experienced sales gains, however:

- 1) Wholesale electrical goods (up 12%),
- 2) Wholesale hardware, plumbing and heating and a/c (up 17%),
- 3) Wholesale miscellaneous (up 18 %).

The largest category, Machinery and Equipment, saw its final sales drop again, this time to \$199 million, a decrease of 5 percent.

One sign that the long awaited business investment recession might be ending manifested itself in the Manufacturing sector during the third quarter. Eleven of the 20 Manufacturing subsectors experienced increasing taxable purchases in the third quarter of 2003 compared to the same quarter of 2002. **And, overall, purchases were up for the fourth quarter in a row, but this**

² Ernie Goss, Creighton University, www.outlook-economy.com

time by only 1.6 percent, weaker than the 5 percent gain in U.S. Producer's Durable Equipment and Software purchases (Table 3).

Two construction-related sectors did well:

- 1) Lumber and Wood sales (up 13%),
- 2) Stone, Clay and Glass sales (up 1.1%).

Significant increases were reported in subsectors with "high tech" links:

- 1) Electronic equipment purchases (up 21%),
- 2) Instruments purchases (up 2%).

An end to the threat and actuality of war meant the end to postponing upgrades for equipment and structures in Utah's Transportation sector. Railroad purchases were up almost 63 percent. Trucking purchases were flat. But Air transportation purchases tanked 53 percent in the third quarter, as airline losses continued to mount.

Communication sales rebounded 11.5 percent as Radio Telephone companies surpassed land-line companies for the second time, possibly due to the extreme competition bundling up services mixed with lower spending power by Utah's consumers. Mobile phone companies' sales of \$182 million were 24 percent above 2002's third quarter. Its formerly bigger brother, the Telephone Communications subsector, saw its sales and purchases drop 12 percent to \$165 million. Cable TV operators reported sales and purchases of \$48 million, up 138 percent, due to the state and local taxation of Cable TV services.

Electric and Gas sales rose 2.2 percent in the third quarter of 2003. Electricity services rose 2.9, while natural gas sales rose 2.2 percent. **Watch for natural gas sales to turn**

up in the future, since spot prices are up 121 percent to \$4.50 per million cubic feet.

Taxable Services Fall 2 Percent

Taxable services, the smallest, but prior to 9-11 the fastest growing major-sector, recorded a 2.3 percent decline during the third quarter of 2003 to \$1.13 billion. Services have made continuous quarterly declines since the third quarter of 2001 ranging from -0.5 percent to -9.4 percent.

Signifying some stabilization in Utah tourism, albeit at a lower post-9/11 level, Hotel sales rose 1.2 percent in the third quarter of 2003. Rooming and boarding house services were up nearly 7 percent, while Trailer Parks and Campsite services were up nearly 6 percent. Hotel and Motels sales were up 0.8 percent.

Finance and Real Estate sales and leases fell 20.6 percent in the third quarter. Banking auto leases dropped from 25 percent, while Credit Agency leases fell 30 percent (some of the large auto make leasing agencies are in this latter category). In contrast, Real Estate services, more than doubled to \$12 million in the third quarter of 2003.

The largest Service sector, the Auto Rentals and Repair category, reported a 0.2 percent gain in 2003's third quarter. Automotive rentals, related to the state's tourist sector, saw its sales fall 1 percent to \$114 million in the important fall quarter. Auto repair, the largest subsector, made a slight 0.9 percent gain in services in the third quarter.

In the second largest Service sector -- Business Services -- sales and services fell 3.6 percent to \$244 million, below the near 7 percent drop in the third quarter of 2002.

Miscellaneous Business Equipment fell 7 percent for the second quarter in a row and Mailing, Reproduction and Stenography sales fell nearly 8 percent during the third quarter of 2003. Computer and Data Processing recorded a decline of nearly 3 percent.

Some improvement was evident in Amusement and Recreation sales during the third quarter. The large motion picture theater category saw its admissions and sales rise 10.7 percent, following a gain of 8 percent gain in 2002's third quarter. Ski Resort sales rose 2.7 percent. Commercial Sports (Jazz, Grizzlies) sales and services also fell again, this time by 9 percent. Video Tape Rentals increased 2.5 percent, but the largest subsector, Miscellaneous Amusements, including amusement parks and water recreation, saw a 4 percent decline in sales and services to \$93 million.

PUBLICATION CHANGE

Due to budget cuts, effective July 1, 2001, we will no longer print the County (Section III) and Major City (Section IV) taxable sales by industry sections. These tables will be available on our Internet site under the "Sales Taxes" section. See inside cover for our Internet address.